Yukon Economic Outlook
2012

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May 30, 2012

Yukon
Economic Development

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Highlights for 2011

Current as of May 30, 2012

- Preliminary estimates by Statistics Canada indicate that Yukon's real GDP grew 5.6% to $1.776 billion, from $1.681 billion in 2010. Gains in real GDP in 2011 marked the eighth consecutive year of growth.
- Yukon's average annual population increased by 1.6% in 2011 to 35,391. Increasing population in 2011 marked the eighth consecutive year of growth.
- Yukon's average unemployment rate of 5.4% for 2011 was down from 6.9% in 2010 and well below the national average of 7.5%.
- Mineral exploration expenditures in 2011 are estimated at nearly $307 million, topping the previous record high of $157 million in 2010.
- The value of Yukon mineral production for 2011 is estimated at $402 million, up from $299 million in 2010.
- Over 114,000 quartz claims were staked in Yukon in 2011, 38% higher than the previous record high of 83,161 recorded in 2010.
- In 2011, the Department of Tourism and Culture reported 309,863 visitors (border crossings), down slightly from 311,542 in 2010.
- The value of Yukon building permits in 2011 was a record $176.8 million, 34% higher than the $131.8 million reported for 2010.
- The value of retail sales in Yukon totaled a record $662 million in 2011, up 10.6% from $599 million in 2010.

Forecast for 2012

- Yukon's real GDP is expected to increase by 3% in 2012, with growth related primarily to increased mineral production.
- With labour force growth expected to outpace employment growth in 2012, the unemployment rate is expected to increase to 6.5%-7.0%.
- Yukon's population is forecast to average 36,000 in 2012, marking the ninth straight year of population growth.
- The value of mineral production is expected to total almost $600 million, up from the 2011 estimate of $402 million. Growth in 2012 is expected to stem primarily from higher production from the Wolverine mine, which declared commercial production in March 2012.
- Border crossings are expected to total about 313,000 in 2012, up slightly from approximately 310,000 in 2011.
- The value of building permits in 2012 is expected to be $150 million, down from the record $177 million in 2011, but well above the long-term average.
- Retail sales are expected to continue to benefit from a strong economy and total approximately $690 million in 2012, representing a 4% increase from 2011.

Global, U.S. and Canadian Economic Outlook – 2011/2012

It was a year of significant uncertainty for the global economy in 2011. Fears of a second global economic downturn since 2008 persisted and were primarily related to worries about the difficult fiscal situations of some countries in the eurozone and the worry that potential defaults of some countries could have substantial impacts on the European banking system. This has had ramifications for global financial markets including decreased liquidity, the impacts of which have even been felt in Yukon. The performance of the U.S. economy also did little to ease global economic concerns in 2011, which has seen a recovery from the previous economic downturn that has been slower than many analysts expected. In addition, a number of Middle East countries saw internal conflicts, and in some cases changes in leadership that contributed to heightened geopolitical tension and concerns about interruptions in global economic oil supply. All of these events helped keep the price of oil high throughout 2011, likely dampening economic growth in some countries.

The most recent World Economic Outlook, published by the International Monetary Fund (IMF) in April 2012, estimates global economic growth of 3.9% for 2011.[1] Growth in 2011 was noted as lower than in 2010, where growth was estimated at 5.3%. As has been the case in recent years, growth rates in 'emerging and developing economies' in 2011 are estimated to have exceeded those of 'advanced economies' with overall growth for emerging countries estimated at 6.2%, almost four times the 1.6% growth noted for advanced economies. Leading the way for the emerging economies are China and India, which are estimated to have grown 9.2% and 7.2% respectively in 2011.

The World Economic Outlook (April 2012) includes global economic forecasts of 3.5% for 2012 and 4.1% for 2013, with growth in emerging and developing economies expected to be far more robust than growth in developed economies. Advanced economies are expected to post growth of 1.4% and 2.0% in 2012 and 2013 respectively. Emerging and developing countries are expected to post much higher growth with the IMF forecasting growth of 5.7% for 2012 and 6.0% for 2013. China and India, while expected to experience lower GDP growth than recorded in recent years, is expected to continue to fuel economic growth of emerging and developing countries in both 2012 and 2013. Strong domestic demand in these countries along with continuation of strong demand for oil resources from some of the other emerging and developing countries is expected to contribute to growth in the near-term.

The IMF (April 2012) is estimating economic growth of 1.7% for the United States for 2011, lower than the 3.0% growth estimate for 2010. Growth prospects for the U.S. are looking marginally better going forward with the IMF estimating growth of 2.1% for 2012 and 2.4% for 2013. Improving labour markets, higher consumer and business confidence, fiscal consolidation and generally improving household debt levels are all helping to improve the outlook for the U.S. economy. The conclusion of presidential elections in November should also help provide political certainty for the U.S.

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[1] http://www.imf.org/external/pubs/ft/weo/2012/01/index.htm

Following estimated growth of 2.5% for 2011 for Canada, the IMF is projecting slightly weaker growth of 2.1% and 2.2% for 2012 and 2013 respectively. Canada's recent economic performance has been stable, with Canada generally outperforming most advanced economies. Canada's stable banking system, abundance of valued natural resources, as well as targeted monetary and fiscal stimulus have all contributed to Canada's continued economic growth. Going forward, the demand for Canadian oil and mineral resources is expected to remain strong, which will continue to contribute to Canada's economic growth prospects.

While global growth prospects have improved since late 2011, downside risks to growth remain. Even with the actions taken to address concerns of fiscal sustainability in some European countries the possibility of continued economic and fiscal troubles in Europe remains. Heightened concerns for defaults for some European countries could see investors move to pull resources out of the euro area which could have serious impacts on European and global growth prospects. Escalated unrest in a number of oil-producing countries could also place pressure on global oil prices, as fear of interruptions of global oil supply increases the risk premium on oil. A prolonged period of high oil prices would likely dampen global economic growth prospects, possibly stalling the recoveries of some advanced economies and placing downward pressure on emerging economies. Global growth prospects could also be impacted negatively if oil prices contribute to losses in consumer and business confidence and possible volatility on financial markets.

From a Canadian perspective, a number of areas could impact near-term growth. The Canadian dollar has had a prolonged period of strength versus the U.S. dollar, but further appreciation could have negative impacts on Canadian exports to the U.S. as a high dollar increases the relative costs of Canadian goods to American customers. Canadian exports could also be negatively impacted by a slowdown in the U.S. economic recovery, or lower demand from some European countries and parts of Asia.

In its most recent interest rate announcement on April 17, 2012, the Bank of Canada signaled that an increase in interest rates may be coming. The Bank, citing improving global economic prospects, noted that some modest withdrawal of monetary stimulus could become appropriate. With warnings from the Bank that many Canadians are carrying higher debt levels, an interest rate increase could have negative impacts on Canadian economic activity, as households face higher debt servicing costs. Ultimately the Bank's decision to raise interest rates will be dependent on a number of factors.

Further increases in oil prices may also impact Canadian households as increasing prices would reduce households' discretionary income, likely resulting in lower spending in certain areas of the economy. Higher oil prices could also impact the cost of manufacturing of a variety of goods, and also increase the costs of certain services, which could also have negative consequences for Canadian growth going forward.

Outlook for Global, U.S. and Canadian Economies

- The IMF's World Economic Outlook (April 2012) includes the following:
  - The global economy to grow by 3.5% in 2012 and 4.1% in 2013.
  - The U.S. economy to grow by 2.1% in 2012 and 2.4% in 2013.
  - The Canadian economy to grow by 2.1% in 2012 and 2.2% in 2013.

Yukon Outlook – Economic Sectors

Mining

Yukon's mining sector is in the midst of a strong period of growth with mining activity currently taking place in all areas of the mining life cycle. Current expectations for 2012 have Yukon's mining sector building on the recent strong performance, with the sector well-positioned to be a significant contributor to Yukon's economy for the foreseeable future.

There were over 100 companies doing exploration work in Yukon in 2011, with over 50 of these companies estimated to have spent in excess of $1 million each on exploration-related work. Natural Resources Canada's (NRCAN) Survey of Mineral Exploration, Deposit Appraisal & Mine Complex Development Expenditures indicates that exploration expenditures in 2011 totaled nearly $307 million, which is the highest value on record, and well above the $157 million estimated for 2010. Early indications are that 2012 mineral exploration spending will fall short of the record level reported for 2011, as concerns related to the global economy are making it difficult for mining companies to raise capital. This results in companies budgeting less for exploration-related activities. Current expectations are that mineral exploration expenditures could fall within $160-$200 million, which would be the second highest total on record, and would be well above the historic average.

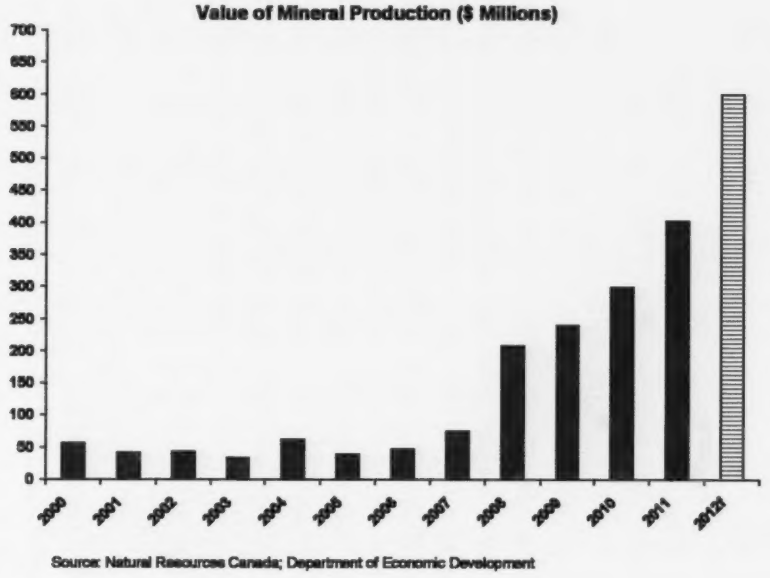
Interest in Yukon's mineral potential is also being reflected in staking activity in recent years. In 2011, a record 114,587 new claims were staked, 38% higher than the high of 83,161 recorded in the previous year. Expectations for 2012 are that staking activity in the territory will fall well below the record level of 2011, but remain above the historic average.

Driving much of the recent exploration activity has been strong growth in gold prices, which have doubled since 2007, and have shown tremendous gains in the last two years. It is estimated that exploration activities related to gold accounted for almost 70% of all mineral expenditures in 2011. With the expectation that gold prices will remain high for the foreseeable future, gold exploration will likely account for a significant portion of Yukon exploration activities going forward.

Following a period of strong development activity that has seen three mines developed and brought into production since 2005, development expenditures in 2012 are expected to fall below recent levels. Due primarily to development work associated with the Wolverine and Bellekeno mines, development expenditures in both 2010 and 2011 were estimated at about $150 million. With the vast majority of the development work associated with these projects now complete, development costs in 2012 will likely decline to less than half of the total seen in the last two years. Contributing to development expenditures in 2012 will be Capstone Mining Corp., which has budgeted over $32 million for capital expenditures on work related to the Minto mine, and Yukon Zinc Corp., which has budgeted $10-$15 million for continued work on the Wolverine project. Further expenditures could be seen on the Bellekeno project and the Victoria Gold project.

With Yukon Zinc Corp. filing Notice of Commencement of Production in March 2012, Yukon now has three commercially producing mines. Production from these mines, along with the production value of placer gold, is forecast to generate about $600 million in mineral production value in 2012, far exceeding NRCAN's estimates of $402 million for 2011 and $299 million for 2010.[2] The additional mineral production in 2012 will be a significant contributor to Yukon's real GDP growth in 2012.

Placer gold production has been generally stable in recent years. Production in 2011 totaled 46,485 ounces; 9.4% lower than the 51,302 ounces produced in 2010. Current expectations for 2012 are for placer gold production to approach the 2010 level and total about 50,000 ounces.



Source: Natural Resources Canada; Department of Economic Development

Prices for minerals of interest to Yukon have generally been strong in recent years with annual gains in both 2010 and 2011 for gold, silver, copper, zinc and lead. The recent performance of gold and silver price in particular has been very strong. Gold prices in 2011 approached US$1,900 per ounce and averaged about US$1,570 per ounce for the year, 28% higher than the 2010 average of about US$1,225 per ounce. Silver prices in 2011 averaged over US$35 per ounce, up 74% from about US$20 per ounce in 2010.

While copper, zinc and lead prices have not surged like that of the prices for gold and silver, prices for all three of these metals have recorded recent gains.

- Copper prices averaged US$4.00 per pound in 2011, up 17% from US$3.42 per pound in 2010 and 71% from US$2.34 in 2009.
- Zinc prices averaged US$0.99 per pound in 2011, similar to the level recorded in 2010 and from US$0.75 per pound in 2009.

[2] NRCAN, 2011 Preliminary Estimate of Mineral Production http://mmsd.mms.nrcan.gc.ca/stat-stat/prod-prod/2011-eng.aspx

- Lead prices averaged US$1.09 per pound in 2011, up from US$0.97 per pound in 2010 and US$0.78 in 2009.

Continued economic uncertainty, especially in relation to the U.S. and some European countries, is expected to contribute to mixed performance for mineral prices in 2012. Gold and silver prices are expected to continue to perform well, with a number of forecasters expecting gains in price for both of these precious metals. Estimates for 2012 vary by forecaster. At the time of writing TD Economics was forecasting gold at US$1,766 per ounce and silver at US$35.02 per ounce, while BMO Capital Markets was forecasting gold at US$1,675 per ounce and silver at US$34.25 per ounce. Forecasters are less bullish on the prospects for copper, and zinc prices in 2012 with current expectations for prices to be steady, or slightly lower than the levels posted in 2011.

With three producing mines and a number of other projects advancing towards development decisions, the future of Yukon's mining sector looks promising. Currently there are six projects that have gone through permitting or in the process of obtaining the appropriate permits. There are also 10 projects that are doing advanced exploration or are completing feasibility-related work. A number of the project proponents have noted development timelines that could see development and production within five years.

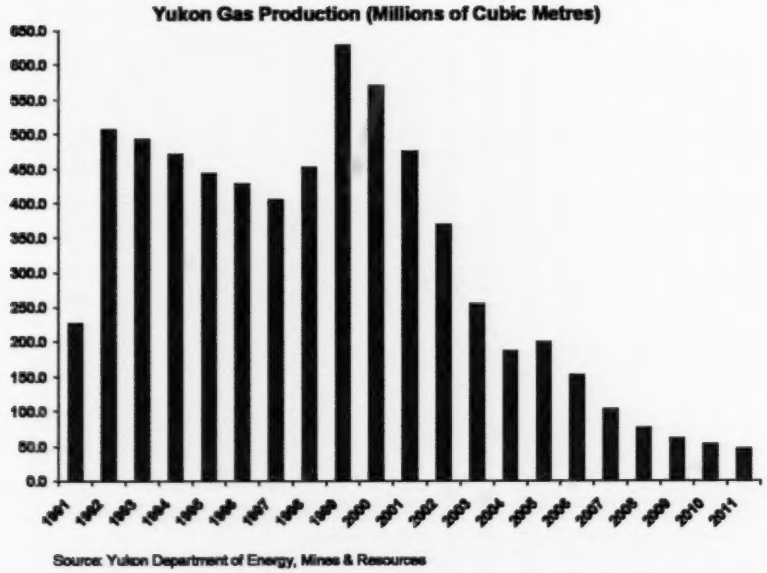
While it is certainly the case that mining activities in Yukon are impacted by what is happening in the global economy and in the global mining sector, Yukon seems to be well-positioned to capitalize on the strong interest in its mineral resources. The expectation going forward is that development of Yukon's mineral sector will continue, with mining-related activity continuing to be an important contributor to Yukon's economy for the foreseeable future.

Outlook for Mining

- Mineral exploration spending in 2012 to fall in the $160-$200 million. This would be the second highest on record.
- With the vast majority of the development work associated with newly producing projects now complete, development costs in 2012 will likely decline to about half of the total seen in the last two years.
- The value of mineral production could total about $600 million in 2012, up from $402 million in 2011. Growth in 2012 is expected to stem primarily from a significant increase in production from the Wolverine mine which declared commercial production in March 2012.

Oil and Gas

Production at Kotaneelee, Yukon's only producing natural gas field, continued to decline in 2011 with production of 45.1 million cubic metres, down almost 13% from 51.6 million cubic metres in 2010. Kotaneelee has generally been on the decline since 1999, a normal trend for a field that is nearing the end of its productive life.



Source: Yukon Department of Energy, Mines & Resources

The Government of Yukon undertakes a disposition of oil and gas rights twice annually. The Spring 2012 Request for Postings (RFP) closed on January 18, 2012, and saw the Government of Yukon receive 12 RFPs for areas in southern Yukon in the Whitehorse Trough oil and gas basin. It was announced on April 12, 2012 that oil and gas exploration rights would not be issued in any of the 12 areas. This decision was made following the conclusion of a 60-day public review period and a technical review by the Government of Yukon.

For a number of years there has been discussion of the development of two proposed northern natural gas pipeline projects that if developed would have impacts on Yukon. Recent events seem to indicate that the development of either of these projects in the short-term is unlikely.

The Alaska Highway Pipeline Project would offer a source of natural gas to the United States' lower 48 states, with gas to be shipped via a 2,700-kilometre pipeline from Alaska, through Yukon and into Alberta. Recent development of shale gas resources in the United States has lessened the need for Alaskan natural gas and lowered the price of natural gas, and as such, alternative destinations for Alaskan gas are being considered. The project proponent, TransCanada PipeLines Limited, along with ExxonMobil, BP PLC, and ConocoPhillips, have committed to study the possibility of developing an alternative instate pipeline and liquefied natural gas (LNG) export plant. This project would be focused on production of LNG that would be targeted for Asian markets that have a growing demand for natural gas products. Results of the evaluation of the LNG option for Alaskan gas will be important in determining if the Alaska Highway Pipeline Project will remain an option for development.

Development of the Mackenzie Gas Project in the near-term is uncertain. Abundant U.S. shale gas resources, natural gas prices at 10-year lows and cost escalations in the project itself were all noted as rationale for the recent announcement by the project lead, Imperial Oil, that the project had been put on hold and that budgets and staffing related to the project were being reduced. Beyond Imperial Oil, the partnership group that had been looking to develop the project includes Exxon Mobil Corp., ConnocoPhillips, Royal Dutch Shell PLC and the Aboriginal Pipeline Group. On April 2, 2012 the partnership issued a news release indicating that while the project was currently on hold, the project could be restarted if natural gas prices were to rebound sufficiently so as to improve the viability of the project.

There is optimism being generated about possible oil and natural gas development in Yukon coming out of the efforts of Northern Cross (Yukon) Limited to develop resources in the Eagle Plain area in northern Yukon. Development of natural gas resources would offer an opportunity for Yukon to reduce its dependency on the importation of petroleum products and provide a more cost-effective option to these petroleum products. With a substantial investment from CNOOC (China National Offshore Oil Corporation) International Inc., an affiliate of CNOOC Limited, one of China's largest independent oil and gas companies, Northern Cross has the capital to move forward with exploration work on its Yukon properties. Northern Cross has made a commitment of over $20 million for work on 15 exploration permits in the Eagle Plain area. Northern Cross is preparing a major exploration drilling program that is expected to begin in the summer of 2012, include the drilling of at least five wells and will likely last until the spring of 2013.

Economic growth in Yukon is increasing the demands for energy. Continued development of Yukon's mining sector in particular is placing additional pressure to identify adequate and cost-effective local sources of energy production. In response to these pressures the Department of Energy, Mines & Resources is examining the feasibility of developing Yukon's natural gas resources to meet Yukon's current and future energy demands.

Outlook for Oil and Gas

- Continue to evaluate the possibility of utilizing local gas resources to meet Yukon's current and future energy demands.

Tourism

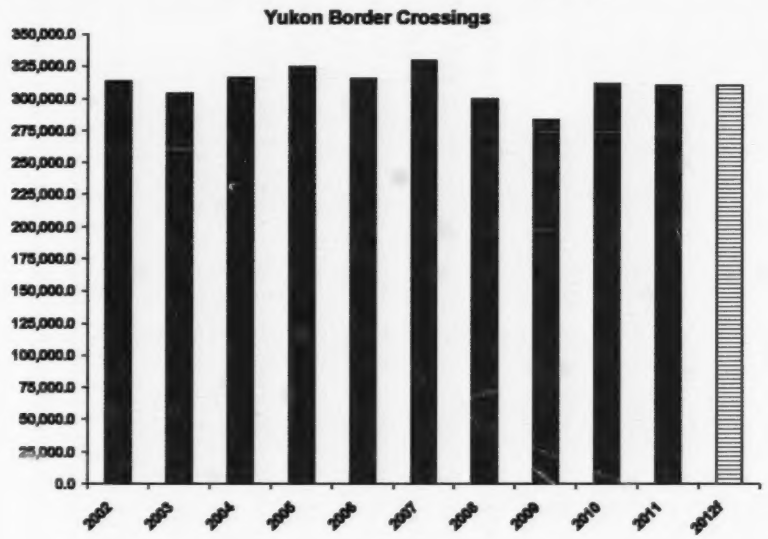
Recent tourism activity in Yukon has been steady, with annual international border crossings totaling about 310,000 in the past two years. Annual international border crossings of 309,863 were recorded in 2011, down slightly from 311,542 in 2010, but still above the almost 283,000 recorded for 2009.

Visitation via motorcoach totaled 122,205 in 2011, up 5.7% from 2010. Countering some of the gains in motorcoach visitation was a decline in visitation via private vehicle, which decreased 4.2% to 187,658. Higher year-over-year prices for fuel likely account for some of the decline in private vehicle traffic in 2011.

Recent shifts in visitation origin are consistent with what is being seen nationally, and is reflective of the current economic reality which is seeing advanced economies post weaker growth rates than those of emerging economies such as China or India.

Data for visitation by place of origin indicates that visitation from the U.S., Yukon's largest tourism market, was down 3.5% compared to the previous year, totaling 206,271 in 2011. While 2011 saw over 7,500 fewer visits from the U.S., visitation from the U.S. still accounted for two-thirds of all border crossings in 2011.

Non-U.S. visitation in 2011 increased to 103,592, up 6.0% from 2010. Increases in non-U.S. visitation were seen in all areas with visitation from other parts of Canada increasing 7.5% to 26,812 and foreign visitation increasing 5.1% to 33,329. Driving the foreign visitation was a strong increase in Asia/Pacific tourists, up 14.5% to 11,892.



Source: Yukon Department of Tourism & Culture; Yukon Department of Economic Development

At the Erik Nielsen Whitehorse International Airport, the total number of passengers arriving and departing increased by 7.7%, or 19,140 for a total of 267,442. The total for 2011 exceeded the previous high recorded in 2010, and it is the third consecutive year of increasing passenger volumes at the airport, potentially indicating a shift in how visitors will travel to the territory in the future.[3]

Given Yukon's well-established and unique tourism product, the outlook for visitation to Yukon remains generally positive. With that said, there are factors that have the potential to negatively impact visitation in the near-term.

The Canadian dollar has experienced a prolonged period of strength which is continuing into 2012. The Canadian dollar has been especially strong against the U.S. dollar, with the Canadian dollar averaging US$0.9997 year-to-date (to May 25, 2012). A strong Canadian

[3] Department of Tourism, Yukon Visitor Statistics, Year-End Report 2011

dollar increases the relative cost of travel to Canadian destinations, which could act as a deterrent to individuals who might travel to Yukon. A strong Canadian dollar could also impact visitation from other parts of Canada, as Canadians look to take advantage of a strong currency and travel to U.S. destinations or other regions where the Canadian dollar has appreciated against the local currency.

Economic and political uncertainty in the U.S. and abroad could also have some negative ramifications for travel to Yukon going forward. It has been a turbulent time for a number of countries with many countries' economies struggling in light of ongoing global economic concerns. Weakness in the economic recoveries of some countries, especially the U.S., could influence the global recovery and could negatively impact tourism. Continued economic and political uncertainty will likely cast a shadow on travel prospects going forward, which could have impacts on visitation to Yukon in the near-term.

Travel in 2012 could also be negatively impacted by high and increasing oil prices. Oil prices to May 25, 2012 averaged US$101.83 per barrel, 2.8% higher than in the same period of 2011. High oil prices are being reflected in higher gasoline prices as well with average year-to-date (to May 22, 2012) gasoline prices in Whitehorse are up 3.1% from the same period in 2011 to almost $1.31 per litre. Higher fuel prices increase the costs of operating a motor vehicle and also the operational costs for airlines. Given that the primary modes of transportation into Yukon are motor vehicles and aircraft, it is possible higher fuel prices and the subsequent higher costs of travel, could impact visitation to Yukon.

While risk factors exist, current expectations have visitation in 2012 being up slightly, with a forecast of 313,000 border crossings in 2012.

Outlook for Tourism

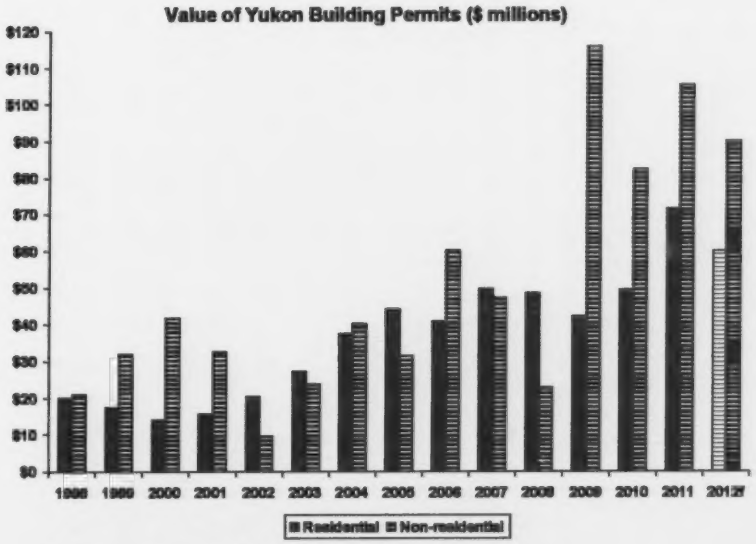
- Border crossings are expected to total about 313,000 in 2012, up slightly from approximately 310,000 in 2011.

Construction

Reflecting the strong performance of Yukon's economy, a record value of building permits of $176.8 million were recorded in 2011. The 2011 value was over 34% higher than the $131.8 million reported for 2010. Gains in building permit value in 2011 stemmed primarily from growth in the value of residential building permits and institutional building permits.

Residential permit value reached $71.5 million in 2011, up almost 45% from the $49.4 million recorded in 2010. Strong residential construction in Whitehorse was the primary driver of residential permit value in 2011, with Whitehorse accounting for over $52 million in residential building permits.

The value of institutional permits totaled $70.8 million in 2011, up almost 50% from the $47.3 million posted in 2010. Major institutional projects such as the Watson Lake and Dawson City hospitals, development of a new wastewater treatment facility and district heating system in Dawson City, and water treatment facilities in Carcross and Ross River all contributed to strong growth in institutional permit value in 2011.



Source: Yukon Bureau of Statistics; Yukon Department of Economic Development

The expectation for 2012 is for construction activity to remain strong, with residential and institutional construction expected to once again be the primary drivers of permit value.

The most recent Government of Yukon budget included a significant commitment of funding in 2012-2013 to address land availability and housing needs. Of the almost $35 million noted to be directed towards these efforts, about half will be related to development of the Whistle Bend sub-division. Lots from phase one of the six phase project are scheduled to be ready for purchase by the fall of 2012 and will provide 93 single family, eight duplex and nine multi-family lots, along with one commercial and one school site. Upon completion, the Whistle Bend sub-division is expected to include 3,900 housing units and accommodate close to 8,000 people.

Beyond Whistle Bend, residential spending in 2012 will include the development of more Government of Yukon land in the downtown Whitehorse area, work related to the Grizzly Valley sub-division near Whitehorse and development of residential lots in Mayo and Watson Lake.

The Government of Yukon's 2012-2013 budget also included over $51 million in various transportation infrastructure projects. Included among these projects are:

- $15 million under the Shakwak project for the Haines Road and North Alaska Highway and a further $1 million from the Government of Yukon for the North Alaska Highway;
- Over $7 million for reconstruction of the Campbell Highway from km 10 to 190 and a further $1.5 million for surfacing;

- Over $7 million over the next two years to extend water and sewer services to the south commercial area at the Erik Nielson Whitehorse International Airport;
- $6 million for work related to rehabilitation and improvement of the Upper Liard Bridge;
- $2.6 million for reconstruction, Bituminous Surface Treatments and re-vegetation work on the Atlin Road;
- $2 million for reconstruction of the Takhini Hotsprings road;
- Over $1.8 million for improvement projects for the Erik Nielson Whitehorse International Airport including taxiway improvements, rehabilitation and the installation of a second bridge or jet way; and
- Over $1.8 million to address airside deficiencies at Yukon aerodromes outside Whitehorse.

In addition to transportation infrastructure and residential development the 2012-2013 Government of Yukon budget included funding commitments in a variety of other areas:

- $15 million under the Building Canada Plan for the construction of new wells, pump houses and treatment plants to improve the quality of drinking water in Burwash Landing, Carcross, Deep Creek, Dawson City, Haines Junction, Mendenhall, Old Crow, Ross River, Tagish and Teslin;
- Over $12 million under the Building Canada Plan as part of a multi-year program to improve water and wastewater systems in Faro, Haines Junction, Mayo and Watson Lake;
- Over $7 million for a new Emergency Response Centre in Whitehorse that will serve as the city's primary ambulance station;
- $7 million to construct a new recreation centre in Ross River;
- Over $4 million to develop a second-stage housing facility in Whitehorse;
- $3 million under the Canada Strategic Infrastructure Fund to complete the last phase of the Whitehorse Waterfront Development project;
- Over $2.3 million to build the Arrest Processing Unit, which will serve as a replacement for the RCMP detachment cells and offer prisoners access to 24-hour nursing and specially trained correctional staff; and
- Almost $1.3 million for replacement of the F.H. Collins Secondary School in Whitehorse.

The City of Whitehorse's most recent capital budget, released in December 2011, also notes several capital projects which will see notable spending in 2012. Most prominent among the spending included in the capital budget is $6.5 million in 2012 that is allocated for the extension of water and sewer services and associated road work in the Marwell area. New fire hydrants will also be added in some parts of Marwell to enhance fire protection. The city's most recent capital budget also includes 2012 expenditures of $4 million for expansion of the Porter Creek Reservoir and $3.8 million for reconstruction of Black Street, including work on roads, sidewalks and water and sewer lines. The budget also includes a total of $4.1 million to be directed towards the replacement of the Selkirk Pumphouse, a facility that currently handles Whitehorse's entire water supply. Of the $4.1 million, $2 million is planned to be spent in 2012 with the remaining $2.1 million to be spent in 2013.

Activity related to the mining sector should also continue to contribute to construction activity in Yukon. Even with the vast majority of the development work associated with Yukon's three commercially producing mining projects complete, these projects will continue to have expenditures associated with ongoing mine development. Capstone Mining Corp. has budgeted over $32 million for capital expenditures on work related to the Minto mine. Yukon Zinc Corp has also budgeted $10-$15 million for continued work on the Wolverine project. Further expenditures could be seen on the Bellekeno project as well as on the Victoria Gold project if development were to commence in the fourth quarter of 2012.

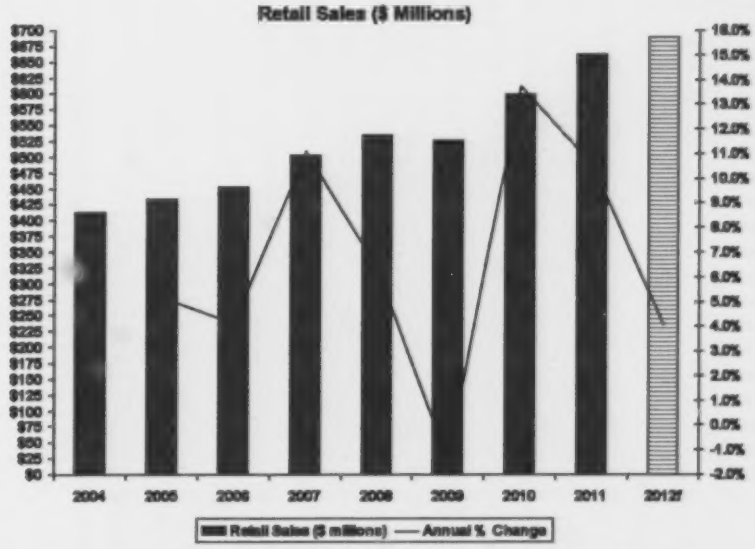
The current forecast for the value of building permits issued for 2012 is $150 million, which would be down from the record $177 million recorded in 2011, but above the long-term average.

Outlook for Construction

- The value of building permits in 2012 is expected to be $150 million, down from the record $177 million in 2011 but above the long-term average.

Trade

The value of retail sales in Yukon totaled a record $662 million in 2011, up 10.6% from $599 million in 2010. Strong economic activity related to mining development, increased employment, higher population and higher year-over-year fuel prices are all considered contributing factors to retail sales growth in 2011.



Source: Yukon Bureau of Statistics; Statistics Canada; Yukon Department of Economic Development

The value of retail sales for 'other retail stores' exceeded $400 million in 2011, up from $378.7 million in 2010. Contributing to the higher value of sales were higher year-over-year fuel prices, which positively impacted the value of sales from gasoline stations.

Increases in sales were also recorded in other retail sale categories in 2011. Sales from 'food and beverage stores' increased 4.4% to $195.7 million in 2011, up from $187.5 million in 2010. Sales from 'clothing and clothing accessories stores' also increased 5.9% to $18.4 million in 2011, up from $17.4 million in 2010.

Strong oil prices are expected to continue to impact fuel prices in 2012 and will likely continue to impact the value of retail sales. Year-to-date (to May 25, 2012) oil prices have averaged almost US$102 per barrel, 2.8% higher than in the same period in 2011. Higher oil prices are contributing to higher fuel prices with year-to-date (to May 22, 2012) gasoline prices in Whitehorse 3.1% higher than the same time in 2010. Fuel prices are expected to post a year-over-year increase in 2012, which could see costs of shipping goods to Whitehorse increase as a result of the higher fuel costs. If passed onto consumers, higher fuel costs could also positively impact retail sales.

Rising fuel prices are not expected to be the only driver of retail sales in 2012. Continued economic growth, stemming primarily from activities related to the mining sector could also positively impact retail sales in 2012. A growing population, increases in the number of people employed and higher household incomes should all contribute to growth in retail sales in 2012.

Overall, it is expected that retail sales will grow to approximately $690 million in 2012.

Outlook for Retail Sales

- Retail sales are expected to continue to benefit from a strong local economy and total approximately $690 million in 2012, representing a 4% increase from 2011.

Yukon Outlook – Economic Indicators

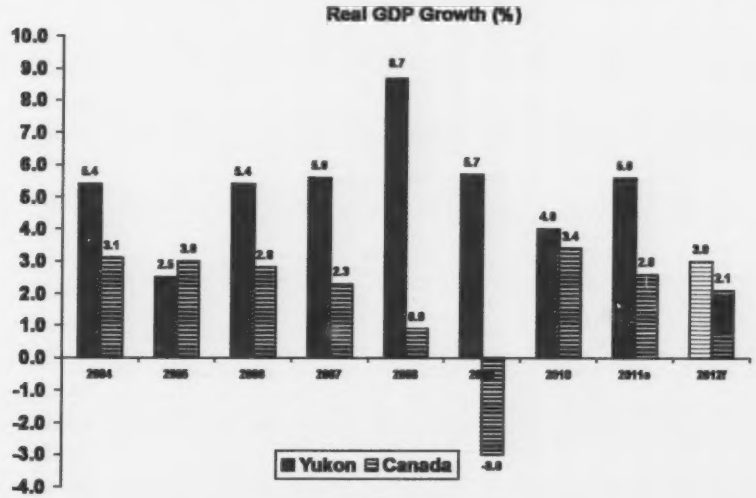
Economic Growth (Gross Domestic Product)

On April 27, 2012, Statistics Canada released preliminary 2011 real GDP data by industry for provinces and territories. It is estimated that Yukon's real GDP in 2011 totaled $1.776 billion, up 5.6% from $1.681 billion in 2010. Yukon's estimated growth for 2011 was more than double the national growth rate of 2.6% and ranked second among all Canadian jurisdictions, behind only Nunavut at an estimated growth rate of 7.7%. With estimated growth of 5.2%, Alberta posted the strongest growth among all the provinces.

Statistics Canada attributed Yukon's 2011 real GDP growth primarily to activities related to Yukon's growing mining sector. It was noted that gains in output of support activities to mining and oil and gas extraction, record levels of mineral exploration and higher mineral production due to the opening of the Bellekeno mine were all contributing factors to real GDP growth in 2011. Statistics Canada also highlighted a 21% growth in construction

output, a 6.6% growth in retail trade and a 4.7% growth in the finance, insurance and real estate sector as contributing to overall growth in Yukon's 2011 real GDP.

With growth in 2011, Yukon has posted eight consecutive years of real GDP growth, with Yukon's growth rate exceeded the national average in seven of the eight years.



Source: Yukon Bureau of Statistics; Statistics Canada; International Monetary Fund; Yukon Department of Economic Development

The development of Yukon's mining sector has been the primary driver of real GDP growth in recent years, with Yukon's economy benefitting from expenditures related to mineral exploration and development and the addition of mineral production from new mining projects. Significant construction activity in Yukon has also contributed to economic growth in recent years.

The expectation for 2012 is that Yukon will post gains in real GDP for the ninth consecutive year as mining and construction related activities continue to contribute to Yukon's economy. The current forecast for 2012 real GDP is for growth of upwards of 3%. The addition of commercial mineral production from the Wolverine mine, supported by continued construction activity and tourism-related activity, is expected to contribute to real GDP growth in 2012.

The Conference Board of Canada's latest economic forecast for the three Canadian territories was released in March 2012.[4] The current Yukon forecast is for 2.9% Real GDP growth for 2012. The Conference Board of Canada releases economic forecasts for the three territories twice annually and a revision to the March estimate is expected this summer.

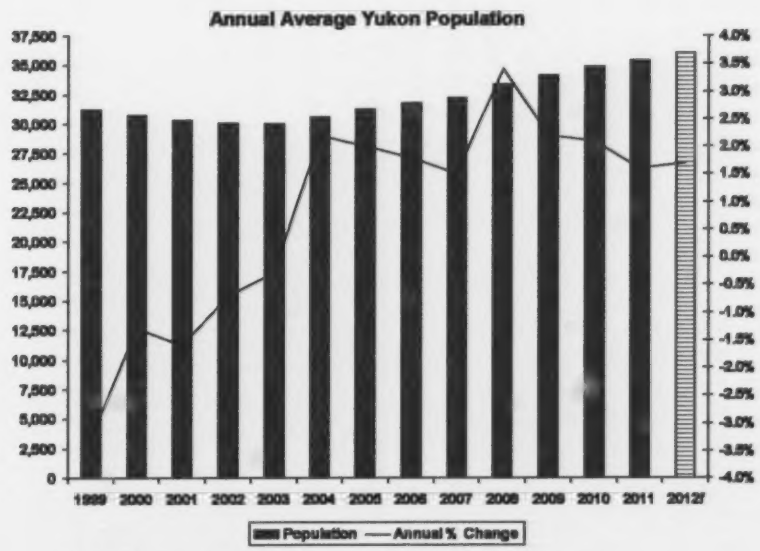
[4] *Territorial Outlook, Winter 2012*, Conference Board of Canada, Centre for the North

Outlook for GDP

- Yukon's real GDP is expected to increase by upwards of 3% in 2012, with growth related primarily to increased mineral production.

Population

Yukon's annual average population grew by 544 to 35,391 in 2011, representing a 1.6% increase over the previous year. This is the eighth straight year of population growth for Yukon and marks the highest annual average population since the beginning of the Yukon Census.[5]



Source: Yukon Bureau of Statistics; Yukon Department of Health & Social Services; Yukon Department of Economic Development

Comparing December 2011 to December 2010, Yukon's population grew 1,133 to 35,800, an increase of 3.3%. Growth was concentrated in Whitehorse where the population increased by 886 (3.4%) to 27,190. The population of Whitehorse accounts for over 75% of Yukon's total population.

Over the same period, population growth was recorded in fourteen communities, with declines only in Watson Lake (-15) and Tagish (-1). The population of Burwash Landing was unchanged. Outside of Whitehorse the largest increases in population were recorded in Dawson City, Marsh Lake and Carmacks, which posted population gains of 78, 42 and 35, respectively.

[5] Accurate population estimates for the gold rush era are not available. However, the first census population estimate for Yukon was conducted in 1901 when the population was recorded at 27,219.

Yukon's demographic situation is similar to the national story with both the populations of Yukon and Canada generally getting older. The population of mid-to-retirement aged Yukoners, aged 45-64, totaled 11,499 in December 2011, 1.7% higher than the December 2010 total. Accounting for over 32% of Yukon's total population in December 2011, the 45-64 segment of Yukon's population has exceeded 30% of the total population for seven consecutive years.

The number of post-retirement age residents (65 and older) has also been increasing in recent years. As of December 2011, 3,291 Yukon residents were 65 or older, accounting for over 9% of Yukon's total population. Only ten years ago, this segment of the population accounted for only about 6% of the population, with only 1,850 post-retirement age people living in Yukon.

While it is the case that Yukon has an aging population, the number of individuals 19 years of age or younger actually increased to 7,748 in December 2011, up from 7,604 in December 2010. This marked the first such increase since 2004. Optimism related to a strong local economy could account for the increase, as young people and young families may be looking to capitalize on employment and business opportunities in the territory.

Optimism related to a generally healthy economy could also explain the continued growth in Yukon's 'working age' population (15-64). This segment of the population totaled 26,887 in December 2011, up 2.8% from December 2010. More than half (13,261) of the 'working age' population falls within the ages of 20-44, with this segment of the population posting strong growth in the last two years, with annual increases of over 4.5% in both 2011 and 2010. Notable increases in 2011 were also recorded in the 25-29 range (7.6%) and the 30-34 range (6.8%).

On average, the population of Yukon is expected to total 36,000 in 2012, representing a 1.7% increase over 2011 and marking the ninth straight year of population increase.

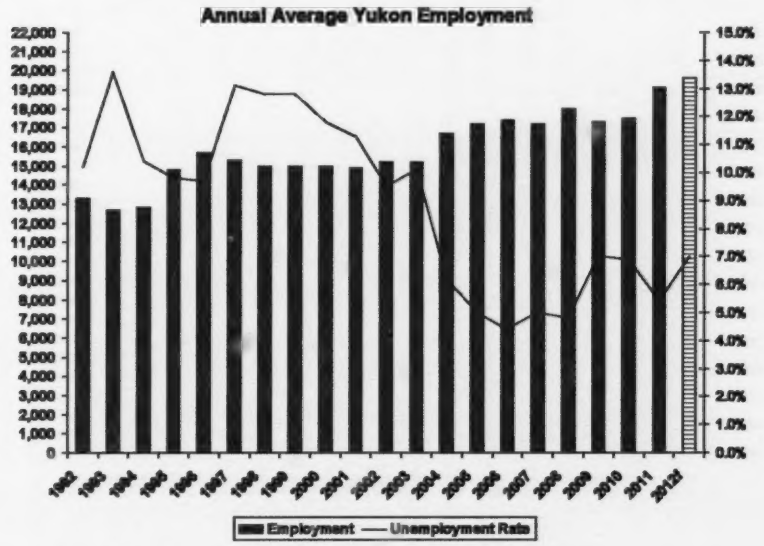
Outlook for Population

- Yukon's average population is forecast to increase to 36,000 in 2012, marking the ninth straight year of population growth.

Labour Force

The Yukon Labour Force Survey, as conducted by Statistics Canada, reported the average Yukon labour force at 20,200 in 2011, almost 7% higher than the figure reported for 2010. The average number of employed in Yukon was 19,100, up 9.1% from the 2010 average of 17,500. The survey also reported the average number of unemployed in 2011 at 1,100, down over 15% from 2010.

The average Yukon unemployment rate was reported as 5.4% for 2011, down from 6.9% in 2010. The 2011 unemployment rate for Yukon was amongst the lowest in the country and well below the national average of 7.5%.[6]



Source: Yukon Bureau of Statistics; Statistics Canada; Yukon Labour Force Survey

Yukon Labour Force Survey data for the first four months of 2012 notes across-the-board increases for key labour force statistics. From January to April, Yukon's labour force has averaged 20,600, 4.4% higher than in the same period of 2011. The average number of people employed in the first four months of 2012 was 19,150, up 375 from the same period of 2011. Gains have also been noted in the number of people unemployed and the unemployment rate in the first four months of 2012, with the average number of unemployed increasing by 525 to 1,450 and the unemployment rate increasing from an average of 4.7% in the first four months of 2011 to an average of 7% in the first four months of 2012.

The higher unemployment rate in early 2012 appears to be at odds with the recent performance of other key economic indicators, as Yukon continues to experience continued high levels of mining-related activity, retail trade and construction activity. Recent increases in the unemployment rate could be attributable to the relatively small sample size used for the Yukon Labour Force Survey, which can often be subject to volatility. Yukon's labour force has also seen significant recent growth, which is often the case for an economy that is performing well. Recent labour force growth outperforming recent employment gains has also contributed to an increase in the unemployment rate in recent months.

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[6] **Methodological differences exist between the Labour Force Survey used for the Territories and that of the Labour Force Survey utilized for the Provinces. Sample design, rotation pattern and reliability criteria are different in the three territories from those in the ten provinces.**

Generally, Yukon's economic fundamentals appear to be strong and the expectation is that continued economic growth driven by continued high levels of construction and resource sector activity should contribute to lower unemployment rates in the coming months. The forecast for 2012 has Yukon's average labour force increasing from 20,200 to 21,000, an increase of 4%. Yukon employment is also anticipated to post growth in 2012, with the current forecast for an increase of just over 2.5% to 19,600. The number of unemployed is expected to increase to 1,400 in 2012, up from 1,100 in 2011. With labour force growth expected to outpace growth in employment, the average unemployment rate for 2012 is expected to increase to 6.5%-7.0%.

Outlook for Labour Force

- Yukon's labour force is expected to continue to post gains in 2012, with the labour force expected to grow to a record 21,000. The number of people employed is also expected to increase to a record 19,600.
- With labour force growth expected to outpace employment growth in 2012, the unemployment rate is expected to increase to 6.5%-7.0%.
- Opportunities associated with resource development activities and high levels of construction activity will continue to support employment gains in 2012.

Consumer Prices

The Whitehorse Consumer Price Index (CPI)[7] for 2011 increased by 3.0%, higher than the 0.8% increase recorded in 2010. The 3.0% annual increase in the Whitehorse CPI is the second highest increase since 1992, and followed two years of very low inflation in 2009 and 2010. Looking at national performance, Canada's CPI increased by a similar 2.9% in 2011.

Contributing to Whitehorse's CPI growth in 2011 was the persistence of strong prices for crude oil, which contributed to higher fuel prices at the consumer level. Comparing 2011 to 2010, the price of Home Heating Fuel Oils and other oils is reported to have increased by 21% and the price of Gasoline over the same period is reported to have increased by 15%. The Energy component of Whitehorse CPI increased by over 13% in 2011, partly a reflection of higher crude oil prices.

Looking at the various components of CPI for Whitehorse, only Clothing and Footwear (down 0.9%) did not post an increase in 2011. On a percentage basis, the largest increases were seen in Gasoline (14.7%), Transportation (5.0%) and Shelter (4.4%). All these components were impacted by higher oil and fuel prices, contributing to much of the increases noted for these components in 2011.

Other components of CPI that saw increases in 2011 included Food (2.6%), Alcoholic Beverages & Tobacco Products(2.3%), Household Operations, Furnishings & Equipment (0.9%), Health & Personal Care (0.6%) and Recreation, Education & Reading (0.1%).

[7] Consumer Price Index data is only available in Yukon for Whitehorse.

Source: Yukon Bureau of Statistics; Statistics Canada; Yukon Department of Economic Development

Expectations for 2012 are that prices will continue to be impacted by high and increasing fuel prices. Year-to-date (to May 25, 2012) oil prices have averaged almost $102 per barrel, almost 3% higher than the $99 per barrel averaged in the same period of 2011. Many forecasters are expecting oil prices to remain high throughout 2012, with BMO Capital Markets Economics forecasting oil to average $100 per barrel and TD Economics calling for oil to average just over $100 per barrel.

The impacts of higher year-over-year prices for fuel have been reflected in Whitehorse's average CPI in the first four months of 2012, which has increased 2.7% versus the same period in 2011. The Gasoline component of Whitehorse's CPI was up 4.7% in the first four months of 2012, while the overall Energy component increased by 5.5%.

The current forecast from the Department of Economic Development is for Whitehorse CPI to increase 2.5% in 2012. This forecast represents the expectation that oil prices will likely continue to be strong throughout 2012, contributing to year-over-year growth in fuel costs. Higher fuel prices could lead to price increases in other areas as increased fuel prices trickle through the economy and increase costs.

Outlook for the Consumer Price Index

- Inflation in Whitehorse in 2012 is expected to average 2.5%, slightly lower than the 3.0% recorded in 2011.

Key Economic Indicators Summary Table

Indicator	*2010*	*2011*	*2012f*
Population, Prices, Rates			
Population	34,847	35,391	36,000
Inflation Rate^	0.8%	3.0%	2.5%
Overnight Rate	0.59%	1.00%	1.00%
Canada/U.S. Exchange Rate	$0.9706	$1.0110	$1.0100
Employment†			
Labour Force	18,900	20,200	21,000
Employment	17,500	19,100	19,600
Unemployed	1,300	1,100	1,400
Unemployment Rate	6.9%	5.4%	6.5%-7.0%
Economic Output			
Real Gross Domestic Product (millions of chained 2002 dollars)	$1,681.1 (r)	$1,775.9 (p)	$1,830
Real GDP Growth Rate	4.0%	5.6%	3.0%
Commodity Prices†			
Gold ($US/oz)	$1,225	$1,570	$1,675
Silver ($US/oz)	$20.16	$35.11	$34.25
Zinc ($US/lb)	$0.98	$0.99	$0.95
Copper ($US/lb)	$3.42	$4.00	$3.85
Oil - WTI ($US/bbl)	$79.43	$95.08	$100
Natural Gas ($US/MMBTU) NYMEX	$4.39	$4.00	$2.15
Lumber ($US/mbf) West SPF 2x4	$255	$268	$270
Mining			
Value of Mineral Production	$298.8 million	$401.8 million (p)	$600 million
Exploration Expenditures	$156.9 million	$306.6 million (p)	$160-$200 million
Development Expenditures	$150 million (e)	$150 million (e)	$70 million
Oil and Gas			
Natural Gas Prod'n Volume - m3	51,631,600	45,143,100	–
Government			
Gross YG Expenditures* - millions	$955.6	$1,005.0	$1,048.1
Construction			
Permitted Building Construction	$131.8 million	$176.8 million	$150 million
Trade			
Value of Retail Sales	$599.0 million	$662.2 million	$690 million
Tourism			
Non-resident Border Crossings+	311,542	309,863	313,000

^ - CPI increase for Whitehorse only
f = forecast, e = estimate, p = preliminary, r = revised, -- = not available
† = annual averages – totals may not total due to rounding
* 2010 = 2010/2011 Actual, 2010 = 2011/2012 Estimate, 2012 = 2012/13 Estimate
+ as reported by the Department of Tourism & Culture

Data Sources for Key Economic Indicators Summary Table

Indicator	*Source*
Population	Yukon Bureau of Statistics, Yukon Population Estimates
Inflation (Consumer Price Index)	Statistics Canada, Consumer Price Index
Overnight Rate	Bank of Canada (average daily rate), BMO Capital Markets
Canada/U.S. Exchange Rate	Bank of Canada (average daily noon rate), BMO Capital Markets
Labour Force Indicators	Statistics Canada, Yukon Labour Force Survey
Economic Output (GDP)	Statistics Canada, Provincial Economic Accounts
Commodity Prices	BMO Capital Markets
Value of Mineral Production	Natural Resources Canada Minerals and Mining Statistics Division, Yukon Department of Economic Development
Mineral Exploration Expenditures	Natural Resources Canada Minerals and Mining Statistics Division , Yukon Department of Economic Development
Mine Development Expenditures	Yukon Department of Energy, Mines & Resources, Yukon Department of Economic Development
Natural Gas Production Volume	Yukon Department of Mines & Energy, Mines & Resources
Tourism Visitation	Yukon Department of Tourism & Culture
YG Expenditures	Yukon Department of Finance, *Financial Information 2012-13*
Permitted Building Construction	Yukon Bureau of Statistics
Retail Trade	Statistics Canada